GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:2262
ANSWERED ON:14.03.2008
INTEREST RATE ON RURAL CREDIT
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Will the Minister of FINANCE be pleased to state:

(a) the existing rates of interest for operation of credit activities in the rural areas in the country;

(b) the manner in which it has benefited the rural people;

(c) whether the Government proposes to reduce the interest rate on rural credit; and

(d) if so, the details thereof?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL)

(a) to (d): As per the interest rate policy of the Reserve Bank of India(RBI), interest rates on loans given by commercial banks(including loans given to the farm sector) have been deregulated, except for interest rates on loans up to Rs 2 lakh, which should not exceed the Benchmark Prime Lending Rate (BPLR) of the bank concerned. Commercial Banks are, therefore,free to decide their lending rates on loans above Rs 2 lakh subject to the announcement of BPLR. Banks are also free to lend at sub-BPLR rates to creditworthy borrowers based on an objective and transparent policy, subject to the approval of their Boards. Banks decide their BPLR by taking into account, inter alia, cost of their funds, transaction cost and risk cost.

The interest rates on loans given by Regional Rural Banks (RRBs) and Co-operative Banks have also been deregulated.

The above initiatives would substantially benefit the rural people.

However,to reduce the burden of interest on Crop Loans availed by farmers for Kharif and Rabi 2005-06,an amount equal to two percentage points of the borrower`s liability on the principal amount upto Rs. 1,00,000/- each was credited to their account. Thereafter, from Kharif 2006, to ensure that the farmer receives Short-Term Production Credit at 7% with an upper limit of Rs.3 lacs on the principal amount, the Government is providing interest subvention of 2% per annum to Public Sector Banks, Regional Rural Banks (RRBs) and Cooperative Banks on their lending from their own resources and refinance at concessional rates to cooperative banks and RRBs on their borrowings from NABARD. The scheme is continuing for 2007-08 and 2008-09 also.

Further,in the Union Budget 2008-09, the Government has announced a debt waiver and debt relief scheme for farmers, which covers all agricultural loans disbursed by Scheduled Commercial Banks (SCBs), Regional Rural Banks (RRBs) and Cooperative Banks upto 31st March, 2007 and overdue as on 31st December 2007. The scheme stipulates complete waiver of all loans that were overdue on 31.12.2007 and which remained unpaid until 29.02.2008 for small and marginal farmers,while there is a One Time Settlement (OTS) scheme for other farmers during the same period.The OTS covers a rebate of 25% against payment of the balance amount of 75%.